

BELARUSIAN MONTHLY ECONOMIC REVIEW

**No. 4 (79)
April 2009**

- Realization of the 'multi-vector' foreign policy.
- Increased reduction of the working time.
- Increasing trade deficit and efforts of new borrowings.
- Increase of banks' refinancing.

Politics: Realization of the 'multi-vector' foreign policy

Two meetings between Belarusian and Russian Presidents A. Lukashenka and D. Medvedev took place in March. Official approval of Belarus as a member country of the EU's "Eastern Partnership" and absence of progress in the issue of recognition of Abkhazia and South Osetia from the Belarusian side led to some tensions in the relationships between the parties. In March, Russia denied a Belarusian request for the loan of RUB 100 bn. Furthermore, Russia granted only the half of the second tranche of the loan that had been agreed, which amounted to USD 500 m instead of the previously scheduled amount of USD 1 bn. Moreover, during one of the meetings the issue of the payments for Russian gas was discussed. According to the Russian mass media in the 1st quarter of 2009 Belarus paid the price of last year of USD 128 per tcm. Despite Presidents stating that they agreed on these issues, the final decision has not been made yet. Alongside, in the beginning of April, a couple of unfavorable tendencies in relationships with the EU took place. For instance, the planned visit of the European Commissioner B. Ferrero-Walnder was cancelled. Thus, the external environment pushes Belarus to the choice of the dominant vector of development.

Real sector: Increased reduction of the working time

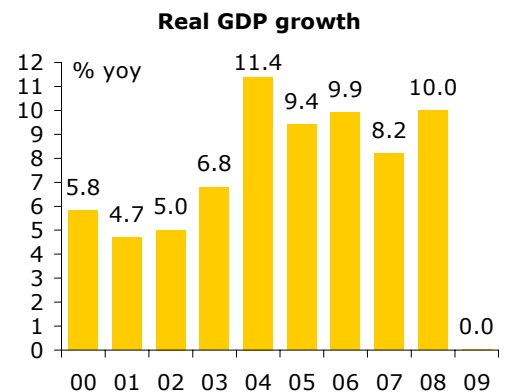
In Jan-Feb, GDP grew by 2.3% yoy (according to the estimations, in February its growth was about 0.4% yoy), while the industrial production decreased by 2.3% yoy (by 4.3% yoy in February). Deceleration of growth was determined by the drop of the external demand for Belarusian goods. Deterioration of the economic situation has already resulted in problems at the labor market. In Jan-Feb the reduction of the working time amounted to 907,000 of man-hours, which is equivalent to the daily non-working of 22,700 employees. Actually, this means an increase of hidden unemployment. In Jan-Feb, the quantity of the officially registered unemployed grew by 5,700 people up to 42,400 and less than half of them get unemployment support. While the problem of unemployment is going to sharpen, the current policy of social protection of unemployed people may require reconsideration.

According to a government Regulation, enterprises were allowed missing depreciation charges till January 1st, 2010. This step will allow decreasing the costs in the accounting and correspondingly to increase the profitability of the enterprises, however it will lead to higher actual depletion of the capital stock.

Structural trends: Increasing trade deficit and efforts of new borrowings


In trade with Russia a number of specific problems have appeared, because of the desire of both sides to support domestic producers through protectionist measures. The Prime-minister of Belarus, S. Sidorskiy stated a couple of times that Russia delays the decisions needed for a free access of the Belarusian goods at the Russian market including the system of the government procurements. In its turn, the Russian side requires from Belarus to cancel the ban for advanced payments on imports, which limits the possibilities of the supply of Russian goods at the Belarusian market. In the end of

Population: 9.67 m
Industry / GDP: 28.1%
Agriculture / GDP: 8.4%
Investment / GDP: 27.9%
Export destination: Russia 32%, EU 44%
Import origin: Russia 60%, EU 22%



Source: Ministry of Statistics and Analysis. Forecast for 2008: IPM Research Center.

IPM Research Center

German Economic Team
in Belarus 

505 Zakharova St., Minsk 220088, Belarus
Tel./fax (+375 17) 210 0105
E-mail: bmer@research.by
Internet <http://research.by/>

© IPM Research Center, 2009

March, the NBB cancelled this ban, but just in few days nullified the latter decision. Alongside, A. Lukashenka made rigid statements in regard to the positions of the Russian side and appealed to look for new markets for the Belarusian products. The situation that was close to the beginning of a "trade war" was mitigated after the Russian Minister of economic development signed an order on access of the products of 11 Belarusian enterprises to the Russian system of state procurements. Thus Belarus still tries to solve the trade problems mainly through administrative stimulation of exports. A huge trade deficit tends to be considered by authorities as the temporary one, but not a structural problem of the economy and hence they keep on attracting funds for covering this deficit. In April, there was a statement about the appeal to IBRD for a loan of USD 125 m. Further, NBB informed about application for Swap-deal with a central bank of one of the European countries. However, in new economic conditions maintaining a trade deficit for a long time seems to be unrealistic and the active increase of borrowings may lead to the problem of debt burden.

Foreign trade: A dramatic drop of exports to Russia

In January, the merchandise trade deficit amounted to USD 416.1 m, having increased by 2.2 times yoy. Exports decreased by 45.4% yoy, while imports by 32.8% yoy. The biggest decrease took place in trade with Russia – exports decreased by 50.1% yoy, while imports by 42.3% yoy – mainly because of the reduction of the physical volume, for exports it decreased by 41.0% yoy and for imports by 23.5% yoy. For instance, from 1582 trucks produced in January only 170 were sold, including 92 trucks supplied to Russia. The physical volume of exports to the Russian market for truck tractors amounted to 6.6% from the level of January 2008, for tractors – 43.6%, for TV sets – 6.2%, for metal-working equipment – 17.5%, for fridges – 61.9%, for trucks – 12.1%.

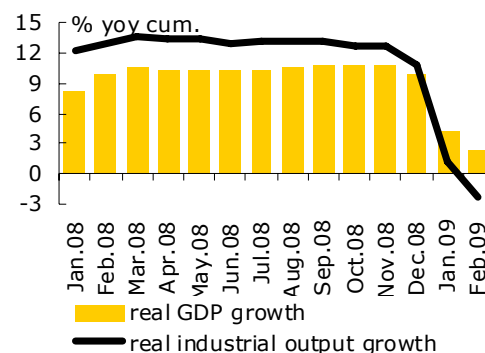
In trade with non-CIS countries exports in January decreased by 38.8% yoy, while imports by 6.0% yoy. Physical volume of exports dropped by 13.7% yoy, while average prices dropped by 29.1% yoy. The most substantial decrease was recorded in supply of potash fertilizers, which is one of the core export goods. In January, physical volumes of it amounted only to 15.1% from the level of January 2008, while the value of exports to 34.3%. The exports of ferrous metals and oil products dropped substantially as well (71.5% and 60% of the January 2008 level). Physical volumes of export of these goods grew, but there was a huge price decrease. Despite the negative trends, there was a surplus in trade with non-CIS countries; however it dropped by 70% yoy. Moreover, it tends to cover less part of the deficit of trade with Russia and the corresponding coefficient decreased from 67.5% in January 2008 down to 30.0% in January 2009.

Public finance: Decrease of the consolidated revenues

Consolidated revenues in January amounted to 52.6% of GDP, which is 5.8 percentage points less than a year before. The reduction of revenues was caused by a drop of the revenues from export duties and VAT by 3.9 and 2.1 percentage points from GDP correspondingly, which is consequent to the decrease of the imports value. Consolidated expenditures amounted to 40.5% of GDP, which is by 5.9 percentage points more than in January 2008. The main items that provided this growth were expenditures for national economy, housing and utilities infrastructure and social policies. Finally the budget surplus amounted 12.3% of GDP (23.8% of GDP in January 2008).

Prime-minister S. Sidorskiy announced the revised indicators of the budget plan, which have been approved to be non-

GDP and Industrial Output



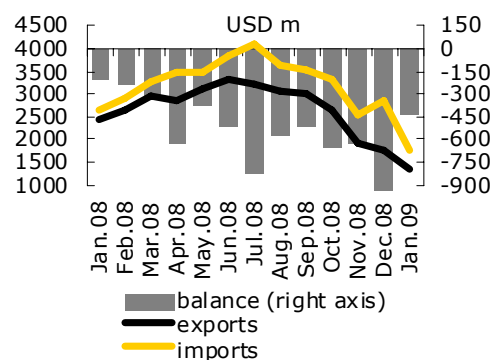
Source: National Statistical Committee.

Contribution to Industrial Output Growth

January–February 2009	Growth	
	%	Contribution*
Industry, total	-4.7	-4.7
Electric power	-11.2	-1.1
Fuel	4.0	0.6
Ferrous metallurgy	-1.4	-0.1
Chemical and petrochemical industry	27.6	1.8
Machinery and metalworking	-20.1	-4.8
Logging, woodworking, pulp and paper	-21.3	-0.8
Building materials	-15.9	-0.6
Light	-16.0	-0.6
Food	2.8	0.4
Other	3.1	0.4

Note. * - data is given in percentage points.
Source: National Statistical Committee.

Merchandise Trade



Source: National Statistical Committee.

deficit according to the IMF requirements. Its revenues and expenditures were reduced by BYR 11.1 and 13.9 trn correspondingly and amount to BYR 62.8 trn (in 2008 revenues amounted to BYR 65.7 trn and expenditures BYR 63.8 trn). According to the Prime-minister, social expenditures will not be touched, which means that it will be done by means of decreasing the financing of the economy branches.

Monetary policy: Increase of banks' refinancing

In February, net foreign assets of the monetary authorities grew by 15.3% mom (by USD 433.5 m). Mainly this was due to the scheduled payment for the shares of Beltransgas by Gazprom (USD 625 m) and advanced payment for gas transit (about USD 250 m was paid during Feb-Mar). However, NBB proceeded increasing refinancing of banks, which grew by 10.0% mom and by 60.1% since the beginning of the year. It should be mentioned that the condition of limitation of banks refinancing growth rate by 12% yoy is among the IMF requirements for Belarus and hence it should be restricted in coming months. Finally, base money grew in February by 11.3% mom, while in annual terms it grew by 0.4% yoy (-9.3% yoy in January).

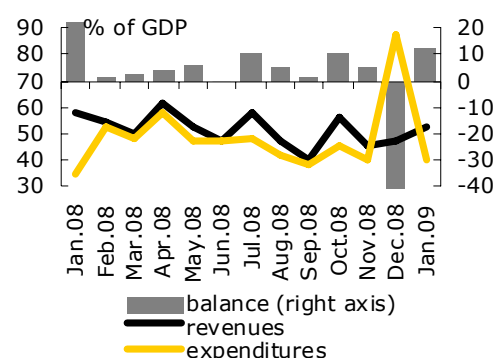
While NBB's interest rates were at a rather high level, it tried to provide additional liquidity for banks through decreasing the reserve requirements (for ruble households' deposits it was reduced down to 1% (from 1.5%) and later in March down to 0). These measures by the NBB enabled banks to maintain high growth rate on granting loans, and outstanding loans grew in February by 3.7% mom, while in annual terms it amounted to 66.9% yoy (64.1% yoy in January). In this situation, interest rates by banks were kept almost unchanged, but however they were still at very high levels in nominal terms. Despite high interest rates in national currency economic agents kept on decreasing demand on it. Cash in circulation was still decreasing (by 0.4% mom) after huge drop in previous months. Moreover, deposits in national currency were still decreasing (by 3.6% mom), while there was a substantial growth of deposits in foreign currency (by 12.9%). Finally, ruble money decreased in February by 3.0% mom, while broad money grew by 4.3% mom. In annual terms their growth rate were 5.9 and 34.6% yoy correspondingly (11.3 and 32.0% yoy in January).

Consumer prices in February grew by 1.2% mom and in annual terms inflation amounted to 15.7% yoy (15.1% yoy January). The Belarusian ruble depreciated to the US dollar in February by 3.9% and appreciated by 0.7% in March, being within the target corridor to the NBB currency basket. As of March 31, its exchange rate was 2837 USD/BYR.

Banking sector: Discussion about attracting investors to state banks

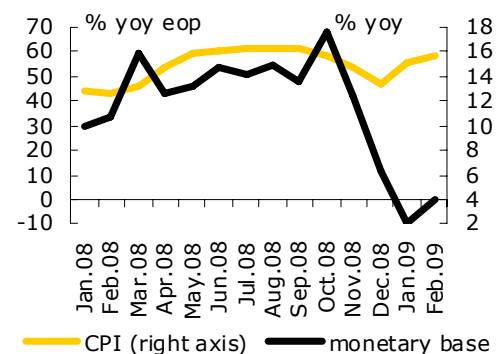
Under the conditions of the global crisis the problem of low capitalization of the Belarusian banking system and restricted access to foreign borrowings sharpened. Through this NBB makes efforts to attract foreign investors to large state banks. The chair of the NBB supervision department, S. Dubkov, stated that NBB supports this idea and informed about negotiations on selling a controlling stake of BPS-bank that is the third largest state bank, to Russian Sberbank. It should be emphasized that during the crisis Russian Sberbank began to realize the strategy of purchasing rather big banks in CIS countries, so it is likely to become one of the largest regional banking groups. However, the final decision will have to be made by the government, which is the owner of this bank. But in current conditions it is likely to be interested in inflow of the foreign capital and hence the probability of this deal to be accomplished is rather high.

Consolidated Budget



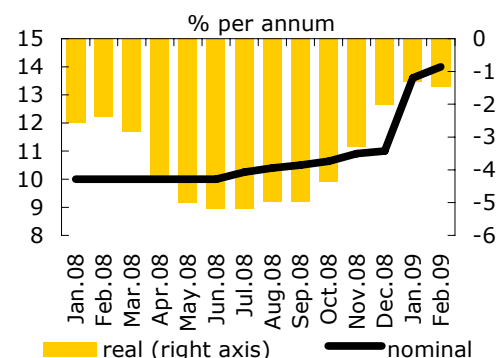
Source: calculations based on the National Statistical Committee data.

Monetary Base and CPI



Source: calculations based on the National Statistical Committee and the NBB data.

Refinancing rate



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Dec 08	Jan 09	Feb 09
GDP growth	% yoy	8.4	8.9	8.4	7.3	10.9	10.1	11.2	7.5			
GDP growth	% yoy cum.	8.4	8.6	8.4	8.2	10.9	10.4	10.7	10.0	10.0	4.2	2.3
Industrial Production	% yoy cum.	5.9	7.7	8.2	8.5	14.7	13.0	13.1	10.8	10.8	1.2	-2.3
Agricultural Production	% yoy cum.	4.4	5.2	5.6	4.1	6.8	5.4	6.9	8.9	8.9	8.4	6.2
CPI	% yoy eop	8.1	7.2	9.0	12.1	13.2	16.0	16.3	13.3	13.3	15.1	15.7
PPI	% yoy eop	11.6	13.6	16.8	17.1	13.5	16.2	18.5	14.2	14.2	19.9	21.4
Merchandise export (USD)*	% yoy	6.3	23.3	18.5	44.4	69.2	56.0	44.9	-11.6	-29.8	-45.4	--
Merchandise import (USD)*	% yoy	20.8	23.7	23.8	42.4	56.5	55.3	53.1	-1.5	-12.2	-32.8	--
Merchandise trade balance (NBB data)	USD m cum.	-836	-1563	-2304	-3858	-647	-2049	-3835	-6104	-6104	-432	-1037
Current account	USD m cum.	-641	-1152	-1652	-2944	-433	-1411	-2920	-5049	-5049	--	--
Current account	% GDP cum	-7.0	-5.8	-5.1	-6.6	-3.6	-5.5	-6.6	-8.0	-8.0	--	--
International reserves	USD m eop	1565	2344	2155	4182	4746	4618	4120	3061	3061	2929	3327
Monetary base	% yoy eop	22	29	25	38	59	54	48	12	12	-9.3	0.4
Lending rate**	% p.a. aop	14	11	12	12	11	10	11	14	15	18	19
Exchange rate (official)	USD aop	2141	2145	2147	2152	2148	2136	2114	2147	2190	2668	2807
Exchange rate (official)	EUR aop	2805	2890	2948	3115	3215	3339	3183	2827	2935	3544	3595

* Growth rates in value terms (source: Ministry of Statistics and Analysis).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2002	2003	2004	2005	2006	2007	2008
Nominal GDP*	BYR trn	26.613	36.565	49.991	65.067	79.231	97.165	128.828
Nominal GDP**	USD bn	14.5	17.7	23.1	30.2	36.9	45.2	60.3
GDP Growth	% yoy	5.0	7.0	11.4	9.4	9.9	8.6	10.0
Industrial production	% yoy	4.5	7.1	15.9	10.5	11.3	8.5	10.8
Agricultural production	% yoy	0.7	6.6	12.6	1.7	6.1	4.1	8.9
CPI	% yoy aop	42.6	28.4	18.1	10.3	7.0	8.4	14.8
CPI	% yoy eop	34.8	25.4	14.4	8.0	6.6	12.1	13.3
PPI	% yoy aop	41.4	37.5	24.1	12.1	8.3	16.2	15.6
PPI	% yoy eop	42.7	28.1	18.8	10.0	8.5	17.1	14.2
Exports (gs, USD)	% yoy	9.8	24.4	35.7	15.8	21.8	24.3	35.5
Imports (gs, USD)	% yoy	9.0	25.1	40.3	3.0	33.0	27.9	37.6
Current account	USD m	-311	-424	-1206	510	-1512	-2944	-5049
Current account	% GDP	-2.1	-2.4	-5.2	1.7	-4.1	-6.6	-8.0
FDI (net)	USD m	453	170	163	303	351	1770	2143
International reserves	USD m	457	474	770	1297	1383	4182	3467
Fiscal balance	% GDP	-0.2	-1.6	0.0	-0.6	2.2	0.6	0.9
Domestic public debt	% GDP eop	5.4	5.5	5.7	5.8	6.5	6.4	6.7
External debt (total)	% GDP eop	27.0	23.7	21.4	17.9	18.6	28.4	24.6
Monetary base	% yoy eop	32	50	42	74	20	38	12
Exchange rate (official)*	USD aop	1784	2075	2160	2154	2145	2146	2136
Exchange rate (official)*	USD eop	1920	2156	2170	2152	2140	2150	2200
Exchange rate (official)*	EUR aop	1690	2353	2684	2681	2692	2937	3135
Exchange rate (official)*	EUR eop	1989	2695	2956	2550	2817	3167	3077

Sources: National Statistical Committee, Ministry of Finance, NBB, IPM Research Center.

Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date